

VALUATION OF BOSMA DAIRIES' OPERATIONS, AND
HENRY AND HENRIETTA BOSMA PERSONAL
AND INVESTMENT ASSETS
AS OF DECEMBER 31, 1998
AND
ECONOMIC BENEFIT OF AVOIDED AND/OR DELAYED
COMPLIANCE WITH ENVIRONMENTAL STATUTES
AS OF DECEMBER 1999

This summary appraisal report has been prepared in order to report the fair market value of Bosma Dairies Operations, and Henry and Henrietta Bosmas' personal and investment assets as of December 31, 1998. It was prepared using standard valuation techniques and practices. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice, promulgated by The Appraisal Foundation and endorsed by the American Society of Appraisers. The American Society of Appraisers has a mandatory reaccreditation program for all of its Accredited Senior Appraisers. William V. Mason II is in compliance with the requirements of that program.

This summary report was prepared by and under the direct supervision of William V. Mason II. A qualification statement for this individual is at the end of this report. No other individuals provided significant professional assistance to the person signing this report.

This summary appraisal report contains a brief discussion of the national, regional, and industry economic outlook, a summary description of the business operations, the valuation methods used and the conclusions I have reached. It does not disclose all the information I have considered, the analyses I have performed, or all of the computations I have made.

To the best of my knowledge and belief, the statements of fact contained in this summary report are true and correct. The report analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are the unbiased professional analyses, opinions and conclusions of the individual involved in this appraisal. McCracken Mason Associates, PC and William V. Mason's compensation is in no way contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report. Neither McCracken Mason Associates, PC, nor the individual involved in this appraisal, have any present or contemplated future interest in the subject properties, or any other interest, financial or personal, which might tend to prevent making a fair and unbiased appraisal.



William V. Mason II, CPA/ABV, ASA
October 22, 1999

Among other factors, this appraisal takes into consideration, as required by general appraisal theory and reiterated in Revenue Ruling 59-60, the following:

1. The nature of the business and the history of the enterprise;
2. The economic outlook in general and the condition and outlook of the specific industry in particular;
3. The book value of the stock, or business interest, with underlying assets and liabilities adjusted to fair market values, and the financial condition of the business;
4. The earnings capacity of the company;
5. The dividend paying/cash distribution capacity of the company;
6. Whether the enterprise has goodwill or any other intangibles;
7. Previous sales of stock and/or the size of the block to be valued; and,
8. The market prices of stocks of corporations engaged in the same or similar lines of business, or subject to similar kinds of business risks, whose stocks are actively traded in a free and open market, either on an exchange or over the counter.

Although not explicitly mentioned above, an additional generalized guideline that is useful in the valuation of a closely held interest is:

9. The transaction prices at which similar companies were sold in their entirety.

This definition of fair market value and the factors to consider is in conformity with the Uniform Standards of Professional Appraisal Practice as promulgated by the Appraisal Foundation.

Summary Description of the Company:

Henry Bosma has operated dairies on approximately the current locations, although initially smaller, since 1973. His production herd is entirely Holsteins, and it currently numbers approximately 4,100 production animals. It has been as large as 4,500 animals. Mr. Bosma sells his raw milk to Darigold, a member cooperative, at prevailing federal defined prices. Mr. Bosma has sufficient water rights for his herd and feed operations. He also raises the majority of his replacement herd. His heifer herd is currently about 3,745 head, ranging from under 2 months old to just short of 24 months old. At approximately 24 months old, they calve and are placed in the production herd. A production animal typically remains in production for just over three years, during which about 15% of the time they are dry, and not producing. At the end of an animal's milk production life, it is sold. In addition, Mr. Bosma raises feeder steers, male calves not useful for milk production subsequently castrated. In the past he has raised them up to 1000# (about one year old), prior to selling them, but currently he raises them to about 300#, or 4 months old. His current feeder steer herd is approximately

III. FINANCIAL STATEMENT ANALYSIS

Introduction:

An important part of the valuation process is the analysis of the company's financial statements over time. This is done to assess the financial condition of the firm at the time of the appraisal, as well as to assess its historical operating performance. Since an investor purchasing Bosma Dairy operations today is more interested in the future than in the past, the historical results must also be viewed in light of future expectations. However, an investor would look at historical results for trends as a possible indication of future performance and would also analyze the assets and liabilities of the firm. Other things being equal, a company with rapidly rising sales and earnings is worth more than one with little or no growth. In addition, a company with little debt, therefore less risk, may be worth more than an identical firm with significant debt. It should be noted that many risk factors, such as debt, may generate significant value potential with modest risk/debt increases up to a particular level (e.g. leverage factors).

Because Bosma Dairy operations are reported as a proprietorship, Schedule F, there is technically no balance sheet prepared for just the dairy and related operations. In addition, even if all reported debt of Henry and Henrietta Bosma were dairy related, much of the assets of the dairy operations have no historical cost (e.g. milk herd raised and heifers raised) and therefore they would not be reported on a typical historical basis statement of financial position, balance sheet. As a result the following discussion only provides an analysis of dairy related revenue and expense activities.

Historical Financial Statements:

Income Statements/Operating Fundamentals

Gross dairy related revenues have grown from about \$7.1 million for calendar year 1992 to \$15.6 million for calendar year 1998. Over this seven year period revenues have grown at just short of 14% annually. Operating net income was consistently between 3.10% and 4.25% of gross revenues from 1992 through 1996. Calendar year 1997 reported a net loss of 4.1%, but 1998 calendar year reported net operating income of 7.5% of gross revenues. A significant increase in feed costs in 1997 relative to other years (over 58% of gross revenues in 1997, compared with about 50% in other years) appears to generally have resulted in the loss reported in 1997. It is possible that cutoff procedures, or the existence of a feed inventory at the end of year 1997 may have resulted in the anomaly.

An analysis of simple debt free cash flow, where cash flow is defined as net operating income (this is before interest expense) adding back depreciation, shows again steady growth from